

Message Text

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TO SECSTATE WASHDC 8943

INFO AMEMBASSY TEHRAN

USINT BAGHDAD

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY ABU DHABI

AMEMBASSY MUSCAT

USMISSION EC BRUSSELS

AMEMBASSY CAIRO

AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 02253

E.O. 11652: GDS

TAGS: PFOR, UK, XF

SUBJECT: BRITISH RELATIONS WITH THE PERSIAN GULF STATES

1. DURING THE PAST YEAR THERE HAVE BEEN TWO SIGNIFICANT DEVELOPMENTS WHICH COULD HAVE A BEARING ON BRITISH RELATIONS WITH THE PERSIAN GULF STATES. THE FIRST WAS THE REFERENDUM ON THE COMMON MARKET IN JUNE WHICH CONFIRMED THE UK RELATIONSHIP WITH ITS EUROPEAN PARTNERS. THE SECOND WAS THE BEGINNING OF THE FLOW OF OIL FROM THE NORTH SEA WHICH IS EXPECTED IN A FEW YEARS TO ELIMINATE BRITISH
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DIRECT DEPENDENCE ON PERSIAN GULF OIL FOR AT LEAST A

DECADE. THIS REPORT TAKES AN UPDATED LOOK AT BRITISH RELATIONS WITH THE STATES OF THE PERSIAN GULF (IRAN, IRAQ, KUWAIT, SAUDI ARABIA, BAHRAIN, QATAR, THE UAE, AND OMAN).

2. ANY SUCH CONSIDERATION MUST TAKE AS A FRAME OF REFERENCE GIVEN ECONOMIC IMPERATIVES, INCLUDING THE FOLLOWING:

- A) PETROLEUM: DURING THE FIRST HALF OF 1975 (THE LAST PERIOD DURING WHICH BRITISH OIL PRODUCTION WAS IN EFFECT ZERO), THE BRITISH IMPORTED 75 PERCENT OF THEIR PETROLEUM FROM THE GULF STATES. THE BRITISH EXPECT TO BE IN EFFECT SELF-SUFFICIENT IN PETROLEUM IN 1980. THUS IMMEDIATE BRITISH DEPENDENCE ON PERSIAN GULF OIL IS EXPECTED TO DECREASE TO A THEORETICAL ZERO IN THE NEXT FOUR YEARS. THIS WILL, HOWEVER, NOT SIGNIFICANTLY LESSEN BRITISH CONCERN WITH PERSIAN GULF OIL PRICES AND AVAILABILITY SINCE IN PARTICULAR THEIR EC ECONOMIC PARTNERS, WITH WHOM THE BRITISH WILL BECOME PROGRESSIVELY ECONOMICALLY INTERTWINED, WILL CONTINUE TO REMAIN SO DEPENDENT ON PERSIAN GULF OIL THAT A DENIAL OF IT TO THE OTHER EC COUNTRIES WOULD PRODUCE AN ECONOMIC CATASTROPHE WHICH WOULD IN TURN ENGULF THE BRITISH.
- B) EXPORT MARKET: BRITISH EXPORTS TO THE EIGHT PERSIAN GULF COUNTRIES IN 1975, ACCORDING TO THE PROVISIONAL ESTIMATE GIVEN US BY THE FCO, ACCOUNTED FOR ONLY SOME 7 PERCENT OF BRITAIN'S TOTAL EXPORTS. HOWEVER, THIS MARKET IS MORE IMPORTANT TO THE BRITISH ECONOMY (ALWAYS VITALLY DEPENDENT ON EXPORTS) THAN THIS PERCENTAGE WOULD INDICATE, SINCE HMG EXPECTS THE PROPORTION OF ITS EXPORTS TO THE GULF, WHICH HAD GREATLY INCREASED FROM 1974 TO 1975, TO CONTINUE TO INCREASE AS PETROLEUM ROYALTIES FLOW INTO DEVELOPMENT PROGRAMS AND COMMODITY IMPORTS.
- C) EXCHANGE RESERVES: ACCORDING TO BANK OF ENGLAND STATISTICS, EXCHANGE RESERVES HELD

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BY CENTRAL MONETARY INSTITUTIONS HERE ON DECEMBER 31, 1974 TOTALED 4,634 MILLION POUNDS, OF WHICH 3,101 MILLION POUNDS WERE HELD BY "OIL EXPORTING COUNTRIES." (THIS CATEGORY LISTED THE EIGHT PERSIAN GULF STATES AND ALGERIA, BRUNEI, ECUADOR, GABON, INDONESIA, LIBYA, NIGERIA, TRINIDAD, AND VENEZUELA.) BY SEPTEMBER 30, 1975 THESE

EXCHANGE RESERVES HAD DROPPED TO 4,215
MILLION POUNDS OF WHICH 2,943 MILLION
POUNDS WERE HELD BY THE "OIL EXPORTING
COUNTRIES" CATEGORY. THE BANK OF ENGLAND
WILL NOT RELEASE THE BREAKDOWN OF COUNTRIES
WITHIN THIS CATEGORY, BUT OBVIOUSLY THE
GREATER PROPORTION OF THESE HOLDINGS IS
HELD BY THE EIGHT PERSIAN GULF STATES.
WITH A FLOATING EXCHANGE RATE, LARGE SCALE
WITHDRAWALS IN A SHORT-TIME PERIOD COULD
HAVE THE EFFECT OF SHARPLY LOWERING THE
RATE OF EXCHANGE OF THE POUND STERLING,
WHICH SHOULD IN TURN STIMULATE A FLOW OF

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PURCHASES FROM OTHER SOURCES TO TAKE
ADVANTAGE OF A CHEAP POUND. DURING THE
FIRQT NINE MONTHS OF 1975 THE DROP IN
STEPLING HOLDINGS OF THESE "OIL EXPORTING
COUNTRIES" MUST HAVE PUT DOWNWARD PRESSURE
ON STERLING. IT SHOULD BE NOTED, HOWEVER,
THAT ANY LARGE-SCALE CONCENTRATED WITHDRAWAL
THAT WOULD PRECIPITOUSLY AND UNNECESSARILY
DRITE DOWN THE RATE WOULD ALSO ENTAIL A

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SUBSTANTIAL CAPITAL LOSS FOR THE SELLING
COUNTRIES, WHICH WOULD NOT BE IN THEIR BEST
INTERESTS.

3. AN INCREASING PROPORTION OF BRITAIN'S DIPLOMATIC RE-
LATIONS WITH THE PERSIAN GULF STATES WILL BE DEVOTED TO
TRADE PROMOTION. WHEREAS BRITISH EXPORTS TO SUCH AREAS
AS THE UNITED STATES, WESTERN EUROPE, AND JAPAN ARE SELF-
SUSTAINED BY PRIVATE SECTOR INITIATIVE, IN THE GULF AREA
THERE ARE FAR MORE GOVERNMENT-SPONSORED TRANSACTIONS AND,
PARTICULARLY UITH RESPECT TO ARMS SALES, A MUCH GREATER
DEGREE OF GOVERNMENT-TO-GOVERNMENT CONTRACTS. THIS SITU-
ATION HAS LED TO INCREASED PRESSURE IN PARLIAMENT TO UP-
GRADE THE PROFESSIONALISM AND GENERALLY BEEF UP THE IM-
PORTANCE OF CMMMERICAL ATTACHES AND TRADE REPRESENTATIVES
IN THE BRITISH EMBASSIES IN THE AREA.

4. FURTHER ATTENTION TO THE POSSIBILITY OF EXPANDING THE
BRITISH PRIVATE COMMERCIAL REPRESENTATION IN THE GULF HAS
BEEN STIMULATED BY THE LEBANESE CIVIL WAR. WHILE BRITISH
FIRMS HAVE FOUND THERE IS AT PRESENT NO SINGLE SUBSTITUTE
IN THE ARAB WORLD FOR BEIRUT'S FACILITIES, THE LEBANESE
DEBACLE HAS STIMULATED SOME PROPOSALS BY BRITISH FIRMS
COMMENSURATELY TO EXPAND THEIR COMMERCIAL BASES IN THE
GULF.

5. IN VIEW OF THE OVERALL IMPORTANCE OF THE ECONOMIC RE-
LATIONSHIP, THE ENDING OF THE BRITISH PROTECTORATE RELA-
TIONSHIPS AND MILITARY PRESENCE EXCEPT FOR OMAN SHOULD
NOT BE CONSTRUED AS DOWNGRADING THE IMPORTANCE OF THE
GULF TO THE UK. THE 1971 WITHDRAWAL, DICTATED PRIMARILY
BY BUDGETARY AND POLITICAL CONSIDERATIONS, WAS PART
OF THE CONTINUING BRITISH ABANDONMENT OF THE LAST VES-

TIGES OF THE AHAIN OF MILITARY INSTALLATIONS ALONG THE
OLD LIFELINE MF EMPIRE TO INDIA AND SINGAPORE. THE BRIT-
ISH MILITARY PRESENCE IN THE GULF HAD BEEN AT LEAST IN
PART CREATED IN RESPONSE TO THE REQUIREMENTS OF EMPIRE
FARTHER EAST. SINCE THEN, EVEN BRITISH NAVAL VISITS TO
THE GULF HAVE BEEN RELATIVELY INFREQUENT, PARTLY BECAUSE
THE BRITISH FIND DIFFICULTY JUSTIFYING THEM ON A COST-
EFFECTIVE BASIS. DESPITE THIS, HOWEVER, THE BRITISH CON-
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TINUE TO BE CMNCERNED OVER WHAT THEY CONSIDER TO BE THE
STRATEGIC VULLERABILITY OF THE GULF. ALONG WITH THE US
THEY WOULD LIKE TO SEE A MORE VIABLE SECURITY STRUCTURE
IN THE GULF. IN AREAS OTHER THAN OMAN, UK EFFORTS TO
BOLSTER THE BPITISH AND WESTERN POSITION NOW TAKE THE
FORM PRIMARILY OF DIPLOMATIC AND ECONOMIC ACTIVITY. IN
THE LAST YEAR, ALTHOUGH THERE HAVE BEEN FEW STATEMENTS OF
UK POLICY TOWARDS THE GULF IN PARLIAMENT, THERE HAVE BEEN
MORE HIGH-LEVEL UK OFFICIAL VISITS TO THE GULF THAN EVER
BEFORE.

6. THE BRITIQH MILITARY PRESENCE CONTINUES IN OMAN.
THERE THE FCO CONTINUES TO ATTACH GREAT IMPORTANCE TO THE

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NECESSITY OF DINISHING SUBDUING THE REBELLION IN DHOFAR, CONTAINING THE REGIME IN SOUTH YEMEN, AND STIMULATING A BROAD AND EFFECTIVE PROGRAM OF ECONOMIC DEVELOPMENT THROUGHOUT OMAN. THE BRITISH BELIEVE THAT A FAILURE TO ACHIEVE A STABLE REGIME IN OMAN WOULD HAVE SERIOUS ADVERSE EFFECTS ON OTHER FRIENDLY GOVERNMENTS IN THE PERSIAN GULF.

7. BEYOND THE BASICALLY ECONOMIC RELATIONSHIP, FOR THE CONFIDENTIAL

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FORESEEABLE FUTURE THE BRITIS/ RELATIONSHIP WITH MOST OF THE PERSIAN GULF STATES WILL CONTINUE TO BENEFIT BY LONG-STANDING HISTORICAL AND PERSONAL ASSOCIATIONS. AFFLUENT AND POLITICALLY PROMINENT ARABS IN THE GULF HAVE BEEN CONDITIONED ADTER MANY YEARS OF ASSOCIATION WITH THE BRITISH GOVERNMENT STRUCTURE AND THE BRITISH EDUCATIONAL SYSTEM TO REGARD BRITAIN AS THEIR HOME AWAY FROM HOME. IT IS NOW A CMMON CUSTOM FOR SUCCESSFUL MERCHANTS AND CABINET MINISTERS FROM THE GULF TO MAINTAIN THEIR OWN APARTMENTS OR HOUSES IN BRITAIN.

8. AS BRITAIN BECOMES A MORE ACTIVE PARTICIPANT IN THE EUROPEAN COMMUNITY, AND THE BRITISH DIPLOMATIC ESTABLISHMENT SEES BRITAIN'S FUTURE (AND ITS OWN) IN EUROPE, THE UK CAN BE EXPECTED TO CONDUCT ITS DIPLOMACY INCREASINGLY IN AN EC CONTEXT RATHER THAN IN THE OLD BILATERAL PATTERN. NEVERTHELESS, THE INTENSE COMMERCIAL RIVALRY AMONG THE EUROPEANS IN THE GULF WILL MAKE IT DIFFICULT FOR THE

BRITISH TO CONDUCT UK POLICY IN THAT AREA IN AN EC FRAME-
WORK. THIS INTENSE ECONOMIC COMPETITION ALSO AFFECTS US-
UK COORDINATION. HOWEVER, CONTINUING CLOSE US CONSULTA-
TION WITH THE UK THROUGH DIPLOMATIC, MILITARY, AND INTEL-
LIGENCE CHANNELS WILL ENCOURAGE THE BRITISH TO CONTINUE
TO SHARE THEIR UNIQUE STORE OF KNOWLEDGE OF THE GULF WITH
US AND SUPPORT US IN OUR POLICY POSITIONS WHENEVER THIS
WOULD NOT JEOPARDIZE THEIR IMPORTANT ECONOMIC AND POLITI-
CAL INTERESTS.

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Message Attributes

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